

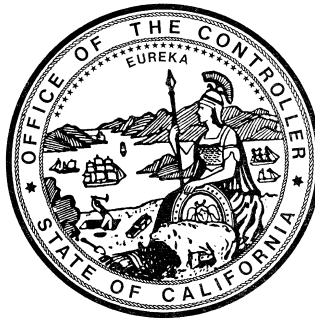
# **SAN DIEGO CITY UNIFIED SCHOOL DISTRICT**

Audit Report

## **GRADUATION REQUIREMENTS PROGRAM**

Chapter 498, Statutes of 1983

*July 1, 1999, through June 30, 2002*



**STEVE WESTLY**  
California State Controller

October 2004



**STEVE WESTLY**  
**California State Controller**

October 22, 2004

Alan D. Bersin, J.D., Superintendent  
San Diego City Unified School District  
4100 Normal Street, Room 2219  
San Diego, CA 92103

Dear Mr. Bersin:

The State Controller's Office (SCO) audited the claims filed by the San Diego City Unified School District for costs of the legislatively mandated Graduation Requirements Program (Chapter 498, Statutes of 1983) for the period of July 1, 1999, through June 30, 2002.

The district claimed \$5,492,915 for the mandated program. Our audit disclosed that none of the claimed costs is allowable because the district did not support that it incurred increased costs for staffing and supplying the new science courses mandated by legislation. The district was paid \$2,897,305. The total amount paid should be returned to the State.

If you disagree with the audit findings, you may file an Incorrect Reduction Claim (IRC) with the Commission on State Mandates (COSM). The IRC must be filed within three years following the date that we notify you of a claim reduction. You may obtain IRC information at [www.csm.ca.gov](http://www.csm.ca.gov) (Guidebook link), and obtain IRC forms by telephone at (916) 323-3562 or by e-mail at [csminfo@csm.ca.gov](mailto:csminfo@csm.ca.gov).

If you have any questions, please contact Jim L. Spano, Chief, Compliance Audits Bureau, at (916) 323-5849.

Sincerely,

*Original Signed By:*

VINCENT P. BROWN  
Chief Operating Officer

VPB:jj

cc: (See page 2)

cc: Rick Reynolds

Executive Director, Financial Operations  
San Diego City Unified School District

Arthur Palkowitz, Manager

Office of Resource Development

San Diego City Unified School District

Rudy M. Castruita, Ed.D.

San Diego County Superintendent of Schools

San Diego County Office of Education

Scott Hannan, Director

School Fiscal Services Division

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California Department of Education

Jeannie Oropeza, Program Budget Manager

Education Systems Unit

Department of Finance

Charles Pillsbury

School Apportionment Specialist

Department of Finance

# Contents

## **Audit Report**

<b>Summary .....</b>	<b>1</b>
<b>Background .....</b>	<b>1</b>
<b>Objective, Scope, and Methodology .....</b>	<b>1</b>
<b>Conclusion .....</b>	<b>2</b>
<b>Views of Responsible Officials.....</b>	<b>2</b>
<b>Restricted Use .....</b>	<b>2</b>
<b>Schedule 1—Summary of Program Costs .....</b>	<b>3</b>
<b>Findings and Recommendations .....</b>	<b>4</b>
<b>Attachment—District’s Response to Draft Audit Report</b>	

# Audit Report

## Summary

The State Controller's Office (SCO) audited the claims filed by the San Diego City Unified School District for costs of the legislatively mandated Graduation Requirements Program (Chapter 498, Statutes of 1983) for the period of July 1, 1999, through June 30, 2002. The last day of fieldwork was April 29, 2003.

The district claimed \$5,492,915 for the mandated program. The audit disclosed that none of the claimed costs is allowable because the district did not support that it incurred increased costs for staffing and supplying the new science courses mandated by legislation. The district was paid \$2,897,305. The total amount paid should be returned to the State.

## Background

*Education Code* Section 51225.3 (added by Chapter 498, Statutes of 1983) requires that beginning with the 1986-87 school year, no pupil shall receive a high school diploma without completing an additional science course above that which was previously required. The legislation was effective in fiscal year (FY) 1983-84; however, a district had up to three years to implement this requirement. Prior to enactment of Chapter 498, Statutes of 1983, one science course was required. As a result of this enactment, two science courses, one each of biological and physical sciences, are now required.

On November 20, 1986, the Commission on State Mandates (COSM) determined that Chapter 498, Statutes of 1983, imposed a state mandate reimbursable under *Government Code* Section 17561.

*Parameters and Guidelines* establishes the state mandate and defines reimbursement criteria. COSM adopted the *Parameters and Guidelines* on March 23, 1988, and last amended it on January 24, 1991. In compliance with *Government Code* Section 17558, the SCO issues claiming instructions for mandated programs, to assist local agencies and school districts in claiming reimbursable costs.

## Objective, Scope, and Methodology

We conducted the audit to determine whether costs claimed represent increased costs resulting from the Graduation Requirements Program for the period of July 1, 1999, through June 30, 2002.

Our audit scope included, but was not limited to, determining whether costs claimed were supported by appropriate source documents, not funded by another source, and not unreasonable and/or excessive.

We conducted the audit according to *Government Auditing Standards*, issued by the Comptroller General of the United States, and under the authority of *Government Code* Section 17558.5. We did not audit the district's financial statements. Our scope was limited to planning and performing audit procedures necessary to obtain reasonable assurance that costs claimed were allowable for reimbursement. Accordingly, we examined transactions, on a test basis, to determine whether the costs

claimed were supported.

We limited our review of the district's internal controls to gaining an understanding of the transaction flow and claim preparation process as necessary to develop appropriate auditing procedures.

## **Conclusion**

The audit disclosed instances of noncompliance with the requirements outlined above. These instances are described in the accompanying Summary of Program Costs (Schedule 1) and in the Findings and Recommendations section of this report.

For the audit period, the San Diego City Unified School District claimed \$5,492,915 for costs of the legislatively mandated Graduation Requirements Program. Our audit disclosed that none of the claimed costs is allowable; therefore, \$5,492,915 is unallowable.

For FY 1999-2000, the district was paid \$607,798 by the State. Our audit disclosed that none of the costs is allowable; therefore, \$607,798 should be returned to the State.

For FY 2000-01, the district was paid \$1,095,223 by the State. Our audit disclosed that none of the costs is allowable; therefore, \$1,095,223 should be returned to the State.

For FY 2001-02, the district was paid \$1,194,284 by the State. Our audit disclosed that none of the costs is allowable; therefore, \$1,194,284 should be returned to the State.

## **Views of Responsible Officials**

We issued a draft report on February 26, 2004. Arthur Palkowitz, Manager, Office of Resource Development, responded by the attached letter dated March 19, 2004, disagreeing with the audit results and stating that the audit report was not issued within the two-year statute of limitations. The final audit report includes the district's response as the Attachment.

## **Restricted Use**

This report is solely for the information and use of the San Diego City Unified School District, San Diego County Office of Education, the California Department of Education, the California Department of Finance, and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

*Original Signed By:*

JEFFREY V. BROWNFIELD  
Chief, Division of Audits

# Schedule 1— Summary of Program Costs July 1, 1999, through June 30, 2002

<u>Cost Elements</u>	<u>Actual Costs Claimed</u>	<u>Allowable per Audit</u>	<u>Audit Adjustments</u>	<u>Reference <sup>1</sup></u>
<u>July 1, 1999, through June 30, 2000</u>				
Salaries and benefits	\$ 1,898,842	\$ —	\$(1,898,842)	Finding 1
Materials and supplies	<u>91,142</u>	<u>—</u>	<u>(91,142)</u>	Finding 2
Total direct costs	1,989,984	—	(1,989,984)	
Indirect costs	<u>83,977</u>	<u>—</u>	<u>(83,977)</u>	Findings 1, 2
Total costs <sup>2</sup>	<u>\$ 2,073,961</u>	<u>—</u>	<u>\$(2,073,961)</u>	
Less amount paid by the State		<u>(607,798)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (607,798)</u>		
<u>July 1, 2000, through June 30, 2001</u>				
Salaries and benefits	\$ 1,490,193	\$ —	\$(1,490,193)	Finding 1
Materials and supplies	<u>19,329</u>	<u>—</u>	<u>(19,329)</u>	Finding 2
Total direct costs	1,509,522	—	(1,509,522)	
Indirect costs	<u>62,645</u>	<u>—</u>	<u>(62,645)</u>	Findings 1, 2
Total costs <sup>2</sup>	<u>\$ 1,572,167</u>	<u>—</u>	<u>\$(1,572,167)</u>	
Less amount paid by the State		<u>(1,095,223)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$(1,095,223)</u>		
<u>July 1, 2001, through June 30, 2002</u>				
Salaries and benefits	\$ 1,749,034	\$ —	\$(1,749,034)	Finding 1
Materials and supplies	<u>41,529</u>	<u>—</u>	<u>(41,529)</u>	Finding 2
Total direct costs	1,790,563	—	(1,790,563)	
Indirect costs	<u>56,224</u>	<u>—</u>	<u>(56,224)</u>	Findings 1, 2
Total costs <sup>2</sup>	<u>\$ 1,846,787</u>	<u>—</u>	<u>\$(1,846,787)</u>	
Less amount paid by the State		<u>(1,194,284)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$(1,194,284)</u>		
<u>Summary: July 1, 1999, through June 30, 2002</u>				
Salaries and benefits	\$ 5,138,069	\$ —	\$(5,138,069)	
Materials and supplies	<u>152,000</u>	<u>—</u>	<u>(152,000)</u>	
Total direct costs	5,290,069	—	(5,290,069)	
Indirect costs	<u>202,846</u>	<u>—</u>	<u>(202,846)</u>	
Total costs <sup>2</sup>	<u>\$ 5,492,915</u>	<u>—</u>	<u>\$(5,492,915)</u>	
Less amount paid by the State		<u>(2,897,305)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$(2,897,305)</u>		

<sup>1</sup> See the Findings and Recommendations section.

<sup>2</sup> Net of offsetting reimbursements and savings.

# Findings and Recommendations

## **FINDING 1— Unallowable salaries, benefits, and related indirect costs**

The district did not provide documentation substantiating the allowability of claimed salaries and benefits totaling \$5,138,069 for the audit period. The related indirect cost is \$196,894.

*Parameters and Guidelines* requires that, beginning with the 1986-87 school year, no pupil is to receive a high school diploma without completing an additional science course above that which was required prior to enactment of Chapter 498, Statutes of 1983. The legislation was effective in FY 1983-84; however, a district had up to three years to implement this requirement. Previously, one science course was required. As a result of this mandate, two science courses, one course each of biological and physical sciences, are now required. The costs incurred for providing the additional science course, net of savings a district experiences as a direct result (e.g., reductions in non-science courses resulting from the increase in required science courses), is subject to reimbursement under this mandate. Consequently, only the net increased costs of the additional biological or physical science courses taught are reimbursable.

*Parameters and Guidelines* states that reimbursable costs include the increased cost to the school district for staffing and supplying the new science courses mandated. Furthermore, the guidelines state that reimbursement for this mandate received from any source (e.g., federal, state, and block grants) is to be identified and deducted.

The district claimed high school science teachers' salaries and benefits based on a formula that determined an incremental increase in teachers as a result of the mandate. The district calculated the increase in the number of full-time science teachers between the FY 1983-84 base-year and the claim years, and reduced that amount by the increase in high school enrollment for the same period. The district then multiplied that number by the claim year's average annual salaries and benefits of a high school science teacher.

The calculation made by the district did not identify the courses taught in the base year for the one required high school science course or the courses taught in the claim years for the two required high school science courses. Consequently, the calculation did not measure the costs of teaching the additional high school biological or physical science courses in the claim years as a result of the mandate.

For the audit period, the district did not identify or report any offsetting savings of salaries and benefits due to reduction of teachers in non-science courses as a result of the mandate. Furthermore, the district did not support the lack of offsetting savings. Consequently, none of the claimed costs is reimbursable.



A review of the funding sources for a sample of 56 science teachers used in the calculation of increased costs revealed that 5 of 56 science teachers were charged to state categorical funds. This impacts the growth percentage by reducing the allocation of costs related to the mandate. However, the district elected not to provide documents substantiating funding sources for the remainder of the science teachers because none of the costs were being allowed due to the offsetting savings issue described above. Thus, the auditors were unable to determine the amount reimbursed from other programs.

Total salaries, benefits, and related indirect costs are unallowable as follows:

	Fiscal Year			Total
	1999-2000	2000-01	2001-02	
Salaries and benefits	\$(1,898,842)	\$(1,490,193)	\$(1,749,034)	\$(5,138,069)
Indirect costs	(80,131)	(61,843)	(54,920)	(196,894)
Total adjustment	<u>\$(1,978,973)</u>	<u>\$(1,552,036)</u>	<u>\$(1,803,954)</u>	<u>\$(5,334,963)</u>

The district had filed claims for similar costs for FY 1984-85 through FY 1995-96. The SCO denied these claims because the district had failed to reduce the claimed amount by offsetting savings (e.g., savings of salaries and benefits due to reduction of teachers in non-science courses). The district filed an Incorrect Reduction Claim (IRC) with the Commission on State Mandates (COSM) for FY 1984-85 through FY 1989-90 on October 4, 1993. The district amended its IRC on February 15, 1995, and then again on September 3, 1999, to include FY 1990-91 through FY 1992-93, and FY 1993-94 through FY 1995-1996, respectively. The district argued that we incorrectly reduced costs of science teachers' salaries for FY 1984-85 through FY 1995-96.

In response, we advised the COSM that the district failed to report "Offsetting Savings and Other Reimbursement," as required by *Parameters and Guidelines*. Furthermore, the claimant did not provide reasons why offsetting savings could not be realized by laying off non-science teachers as authorized in *Education Code* Section 44955. We further advised the COSM that the district voluntarily assumed the increased salary cost of a new teacher because the increased cost could have been avoided by exercising its statutory lay-off authority. On October 2, 2000, the COSM denied the district's IRC.

### Recommendation

We recommend that the district develop and implement procedures to ensure that it claims only increased costs of salaries and benefits net of any offsetting savings and reimbursements the district experiences as a result of this mandate.

### District's Response

On November 26, 1986, the Commission on State Mandate determined that Education Code Section 51225 constitutes a reimbursable state mandate by requiring high school students to complete an additional science course to receive a high school diploma. The District disagrees with the statement in *Finding 1* made by SCO that “(t)he mandate requires a district to provide the additional science course in lieu of a non-science course.” The *Instructions* issued by the SCO state, “(t)he addition of science classes should have resulted in offsetting savings due to a corresponding reduction on non-science classes.” There is no legislation that requires school district to layoff non-science teachers to realize a savings. Education Code 44955(B) **allows** school boards to layoff teachers when state-mandated curriculum changes. The provision outlined in 44955(B) is an option not a duty to layoff teachers. The SCO attempts to convert the **option** to terminate teachers under Education Code 44955 to a **duty** to terminate teachers. This attempt violates the principles of mandated cost reimbursement required under the California Constitution and conflicts with the express language of Education Code 44955. Therefore, the adjustments made to fiscal years 2000/2001 and 2001/2002 are not justified.

In *Finding 1* the SCO again imposes requirements on the District that are not included in the *Parameters and Guidelines* or the *Instructions*. The SCO states, “(t)he calculation made by the district did not identify the classes taught in the base year for the one required high school science class. . .” The District’s calculation was based on the science teachers and their names. The District supplied the teachers’ names who taught science courses in the 1983/1984 base year. There was no direction by the auditor, *Parameters and Guidelines* or in the *Instructions* to include the name of the class taught by the teacher. San Diego Unified is one of the few Districts that possess teacher data from twenty years ago.

The auditor reviewed the funding sources for a sample of fifty-six (56) science teachers. Five (5) of the fifty-six (56) science were charged to state categorical funds. In *Finding 1* the Draft Audit report incorrectly states the District elected not to provide documents substantiating fund sources for the remainder of the science teachers. Rather the SCO made it clear that even upon providing the funding source for the remaining teachers, the SCO was going to disallow any additional science teacher salaries due to their assumption that for every science teacher hired a non-science teacher should be laid off.

If the SCO is willing to reevaluate its assumption, the District is willing to provide the funding source for all the teachers claimed to confirm or deny that the teachers were paid out of categorical funds.

The SCO in its recommendation under *Finding 1* recommends that the District “develop and implement an adequate recording and reporting system to ensure that it claims only increased costs of salaries and benefits net of any offsetting savings and reimbursements the district experiences as a result of this mandate.” The District’s current system records all science related costs for salaries, supplies and materials and then claims a percentage of the costs since only one additional science course is required. For nearly twenty years your agency has been receiving annual claims from our district. During this time period the

SCO failed to take the following actions: (1) inform the district our base year calculations were incorrect, (2) provide instructions on how to calculate the base year, and (3) provide requirements to maintain custody of the type of documentation the SCO would accept as conclusive evidence. The District welcomes examples of a more adequate recording and reporting system.

#### SCO's Comment

The finding has been updated to clarify why the district did not provide funding source information to the SCO auditors and to delete the phrase, "The mandate requires a district to provide the additional science course in lieu of a non-science course." In addition, the recommendation has been updated to state that the district should develop and implement procedures to claim only increased costs.

The district calculated the increased costs of science teachers over the base-year level (i.e., before the implementation of the two-year requirements) rather than the costs relating to the second science course taught. The district did not identify any offsetting savings or support a lack thereof.

*Education Code* Section 44955 authorized school boards to layoff teachers when state law requires modification of curriculum. If a school district has the authority to layoff a non-science teacher to meet the salary of a new science teacher, the district is not required to incur additional costs under the mandate.

Furthermore, the district did not support that the average pay rate of a science teacher exceeded the average pay rate of a non-science teacher during the audit period. The reimbursable salary cost for each year consists of positive differential cost (science teacher salary in excess of non-science teacher salary) multiplied by the number of courses taught to satisfy the second mandated science course requirement.

#### **FINDING 2— Unallowable materials, supplies, and related indirect costs**

The district did not provide documentation substantiating the allowability of claimed materials and supplies totaling \$152,000 for the audit period. The related indirect cost is \$5,952.

See Finding 1 for a summary of the *Parameters and Guidelines* requirements.

The district allocated materials and supplies similar to the methodology used to allocate costs as discussed in Finding 1. The calculation did not identify the cost of courses taught in the base year for the one required science course or the cost of courses taught in the claim years for the two required science courses. In addition, the calculation incorrectly allocated costs by applying the growth factor to the current year's material and supplies expenditures. In the case of teachers salaries and benefit costs, the growth factor was applied to base-year costs rather than current-year costs. Consequently, the calculation did not measure the costs of additional science courses taught as a result of the mandate.

For the audit period, the district did not identify or report any offsetting savings of materials and supplies due to reduction of non-science courses as a result of the mandate. Furthermore, the district did not support the lack of offsetting savings. In addition, the base that costs are allocated from included expenditures charged to federal and state categorical funds.

Total claimed materials, supplies, and related indirect costs are unallowable as follows:

	Fiscal Year			Total
	1999-2000	2000-01	2001-02	
Materials and supplies	\$(91,142)	\$(19,329)	\$(41,529)	\$(152,000)
Indirect costs	(3,846)	(802)	(1,304)	(5,952)
Total adjustment	<u>\$(94,988)</u>	<u>\$(20,131)</u>	<u>\$(42,833)</u>	<u>\$(157,952)</u>

### Recommendation

We recommend that the district develop and implement an adequate recording system to ensure that it claims only increased costs net of any offsetting savings and reimbursements the district experiences as a result of this mandate.

### District's Response

The SCO's statement in Finding 2 that, "(t)he district did not provide documentation substantiating the allowability of claimed materials and supplies. . ." is incorrect. The District provided invoices and purchase orders to substantiate the claimed materials and supplies. The SCO erroneously disallowed all the District's claimed materials and supplies. The District concedes that not all the cost claimed were eligible due to the fact that the costs were funded by grants or federal funds. However, \$104,587.82 of the \$152,000 claimed for fiscal year 1999/2000, 2000/2001 and 2001/2002 were substantiated by invoices and purchase orders. Since the audit performed on the 1999/2000 was not timely issued all of the materials and supplies are reimbursable to the District. The SCO *Instructions* state that source documents "may include, but are not limited to, invoices, receipts, purchase orders, and other documents evidencing the validity of the expenditures." Thus, the draft audit report incorrectly disallows all the materials and supplies claimed by the District.

### SCO's Comment

The finding and recommendation remain unchanged.

The district provided invoices and other source documents to support the material and supplies costs claimed. Portions of costs claimed were funded by other categorical state and federal sources.

The district did not support that the average materials and supplies for a science course exceeded the average materials and supplies for a non-science teacher during the audit period. Reimbursable materials and supplies consist of the increased costs multiplied by the number of courses taught to satisfy the second mandated science course requirement.

**OTHER ISSUE—  
Statute of  
limitations**

The district's response included comments regarding the SCO's authority to audit costs claimed for FY 1999-2000, through FY 2001-02. The district's response and SCO's comment are as follows:

District's Response

The audit for fiscal year 1999/2000 Graduation Requirements claim was not timely issued since it occurred subsequent to the two year statute of limitations. Government Code Section 17558.5 imposed a limitations-period on audits of mandate reimbursement claims. Section 17558.5 in effect when the 1999/2000 claim was filed read, a school district is "subject to audit by the Controller no later than two years after the end of the calendar year in which the reimbursement claim is filed." San Diego Unified (District) filed the 1999/2000 reimbursement claim on December 8, 2000. Therefore, the District was subject to an audit no later than December 31, 2002. However, the audit did not "commence" until January 28, 2003. . . . Thus the adjustment of \$1,978,973 made to Fiscal Year 1999/2000 violates Government Code Section 17558.5 [17558.5]. . . .

In conclusion, On April 17, 2003, San Diego Unified requested copies of the following documents in accordance with Government Code Section 6250-6270 (California Public Records Act):

1. Letters (including but not limited to e-mail) sent by the State Controller's Office to California school districts during the month of December 2002 stating the State Controller's Office would commence an audit of the Increased Graduation Requirements.
2. Letters (including but not limited to e-mail) sent by the State Controller's Office to school districts/local agencies in the month of December 2002 stating the State Controller's Office will commence an audit of programs.

The District has repeatedly requested the above documents. To date, the District has not received copies of the requested documents.

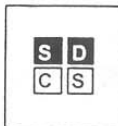
SCO's Comment

The audit scope remains unchanged. We initiated the audit before the statute of limitations expiration period. Our staff contacted the district to initiate the audit in December 2002, within the statute of limitations. The district requested that the audit start in January 2003, rather than December 2002. No statutory language requires an entrance conference or some other formal event to be held before the statute of limitations expiration period.

Information requested by the district under the California Public Records Act has been provided to the district.

**Attachment—  
District's Response to  
Draft Audit Report**

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## SAN DIEGO CITY SCHOOLS

EUGENE BRUCKER EDUCATION CENTER  
4100 Normal Street, San Diego CA 92103-8363

(619) 725-7785  
Fax (619) 725-7564

OFFICE OF RESOURCE DEVELOPMENT  
[apalkowitz@sandi.net](mailto:apalkowitz@sandi.net)

CERTIFIED MAIL—RETURN RECEIPT REQUESTED

March 19, 2004

Jim L. Spano  
Compliance Audits Bureau  
State Controller's Office  
Division of Audits  
Post Office Box 942850  
Sacramento, CA 94250-5874

Dear Chris Prasad:

SUBJECT: GRADUATION REQUIREMENTS DRAFT AUDIT REPORT, CHAPTER 498/83

This letter is in response to the February 2004 Draft Audit Report. The State Controller's office commenced an audit on January 28, 2003 of San Diego Unified's Graduation Requirements claims for fiscal years 1999/2000, 2000/2001 and 2001/2002.

The audit for fiscal year 1999/2000 Graduation Requirements claim was not timely issued since it occurred subsequent to the two year statute of limitations. Government Code Section 17558.5 imposed a limitations-period on audits of mandate reimbursement claims. Section 178558.5 in effect when the 1999/2000 claim was filed read, a school district is "subject to audit by the Controller no later than two years after the end of the calendar year in which the reimbursement claim is filed." San Diego Unified (District) filed the 1999/2000 reimbursement claim on December 8, 2000. Therefore, the District was subject to an audit no later than December 31, 2002. However, the audit did not "commence" until January 28, 2003.<sup>1</sup> Thus the adjustment of \$1,978,973 made to Fiscal Year 1999/2000 violates Government Code Section 178558.5.

On November 26, 1986, the Commission on State Mandated determined that Education Code Section 51225 constitutes a reimbursable state mandate by requiring high school students to complete an additional science course to receive a high school diploma. The District disagrees with the statement in *Finding 1* made by SCO that "(t)he mandate requires a district to provide the additional science course in lieu of a non-science course." The *Instructions* issued by the

<sup>1</sup>Letter dated December 23, 2002 from Chris Prasad (see enclosed).



SCO state, "(t)he addition of science classes should have resulted in offsetting savings due to a corresponding reduction of non-science classes." There is no legislation that requires school district to layoff non-science teachers to realize a savings. Education Code 44955(B) **allows** school boards to layoff teachers when state-mandated curriculum changes. The provision outlined in 44955(B) is an option not a duty to layoff teachers. The SCO attempts to convert the **option** to terminate teachers under Education Code 44955 to a **duty** to terminate teachers. This attempt violates the principles of mandated cost reimbursement required under the California Constitution and conflicts with the express language of Education Code 44955. Therefore, the adjustments made to fiscal years 2000/2001 and 2001/2002 are not justified.

In *Finding 1* the SCO again imposes requirements on the District that are not included in the *Parameters and Guidelines* or the *Instructions*. The SCO states, "(t)he calculation made by the district did not identify the classes taught in the base year for the one required high school science class..." The District's calculation was based on the science teachers and their names. The District supplied the teachers' names who taught science courses in the 1983/1984 base year. There was no direction by the auditor, *Parameters and Guidelines* or in the *Instructions* to include the name of the class taught by the teacher. San Diego Unified is one of the few Districts that possess teacher data from twenty years ago.

The auditor reviewed the funding sources for a sample of fifty-six (56) science teachers. Five (5) of the fifty-six (56) science were charged to state categorical funds. In *Finding 1* the Draft Audit report incorrectly states the District elected not to provide documents substantiating fund sources for the remainder of the science teachers. Rather the SCO made it clear that even upon providing the funding source for the remaining teachers, the SCO was going to disallow any additional science teacher salaries due to their assumption that for every science teacher hired a non-science teacher should be laid off.

If the SCO is willing to reevaluate its assumption, the District is willing to provide the funding source for all the teachers claimed to confirm or deny that the teachers were paid out of categorical funds.

The SCO in its recommendation under *Finding 1* recommends that the District "develop and implement an adequate recording and reporting system to ensure that it claims only increased costs of salaries and benefits net of any offsetting savings and reimbursements the district experiences as a result of this mandate." The District's current system records all science related costs for salaries, supplies and materials and then claims a percentage of the costs since only one additional science course is required. For nearly twenty years your agency has been receiving annual claims from our district. During this time period the SCO failed to take the following actions: (1) inform the district our base year calculations were incorrect, (2) provide instructions on how to calculate the base year, and (3) provide requirements to maintain custody of the type of documentation the SCO would accept as conclusive evidence. The District welcomes examples of a more adequate recording and reporting system.



Jim L. Spano  
March 19, 2004  
Page 3

The SCO's statement in Finding 2 that, "(t)he district did not provide documentation substantiating the allowability of claimed materials and supplies..." is incorrect. The District provided invoices and purchase orders to substantiate the claimed materials and supplies. The SCO erroneously disallowed all the District's claimed materials and supplies. The District concedes that not all the cost claimed were eligible due to the fact that the costs were funded by grants or federal funds. However, \$104,587.82 of the \$152,000 claimed for fiscal years 1999/2000, 2000/2001 and 2001/2002 were substantiated by invoices and purchase orders. Since the audit performed on the 1999/2000 was not timely issued all of the materials and supplies are reimbursable to the District. The SCO *Instructions* state that source documents "may include, but are not limited to, invoices, receipts, purchase orders, and other documents evidencing the validity of the expenditures." Thus, the draft audit report incorrectly disallows all the materials and supplies claimed by the District.

In conclusion, On April 17, 2003, San Diego Unified requested copies of the following documents in accordance with Government Code Section 6250-6270 (California Public Records Act):

1. Letters (including but not limited to e-mail) sent by the State Controller's Office to California school districts during the month of December 2002 stating the State Controller's Office would commence an audit of the Increased Graduation Requirements.
2. Letters (including but not limited to e-mail) sent by the State Controller's Office to school districts/local agencies in the month of December 2002 stating the State Controller's Office will commence an audit of programs.

The District has repeatedly requested the above documents. To date, the District has not received copies of the requested documents.

Sincerely,



Art Palkowitz  
Manager, Office of Resource Development

AMP/pt

Enclosures (1)



KATHLEEN CONNELL  
Controller of the State of California

December 23, 2002

Alan Bersin, Superintendent  
San Diego City Unified School District  
4100 Normal Street, Room 2219  
San Diego, CA 92103

Dear Mr. Bersin:

This letter is to confirm that the State Controller's Office (SCO) has scheduled an audit of San Diego City Unified School District's legislatively mandated Increased Graduation Requirements program claims filed for fiscal years 1999-2000 and 2000-01.

As discussed in a telephone conversation with Art Palkowitz on December 18, 2002, Chris Ryan will commence an audit of the subject programs on January 28, 2003, beginning with an entrance conference at 11 a.m.

We would appreciate your furnishing working accommodations for, and making the necessary records (see attachment) available to, our audit staff. Should you have any questions, please call me at (916) 445-8519.

Sincerely,

A handwritten signature in cursive script, appearing to read "Prasad".

CHRIS PRASAD, Audit Manager  
Compliance Audit Bureau  
Division of Audits

CP:jj

RE: S03-MCC-015

cc: (See page 2)

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